

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 000363

SIPDIS

NSC FOR ABRAMS/DANIN

E.O. 12958: DECL: 01/18/2015

TAGS: [ECON](#) [EFIN](#) [PREL](#) [KWBG](#) [IS](#) [ECONOMY](#) [AND](#) [FINANCE](#) [ISRAEL](#) [RELATIONS](#) [GAZA](#) [DISENGAGEMENT](#)

SUBJECT: FINANCE MINISTRY DG ON U.S. ASSISTANCE, BUDGET AND
JOINT ECONOMIC DEVELOPMENT GROUP (JEDG)

REF: TEL AVIV 244

Classified By: Ambassador Daniel C. Kurtzer for Reasons 1.4 (d,b)

1. (C) Summary. Economic Counselor and Deputy held a wide-ranging meeting with Finance Ministry DG Yossi Bachar on January 18. Bachar discussed the Cabinet's January 16 decision to name him chair of a committee coordinating all assistance requests to the USG. He believes this would give coherence to the GOI's policy in this area. In this regard, Bachar noted it was "too early" for the GOI to submit any assistance request for disengagement. Furthermore, Washington should not view recent Israeli probing on U.S. assistance for Israel's Palestinian quality of life program as an official request. During the meeting, Bachar also:

-- Accepted the USG's proposal to hold a Joint Economic Development Group (JEDG) meeting in April. He noted GOI interest in utilizing rolled-over U.S. loan guarantees in March or April, and agreed to seek a USG determination approving such an issuance closer to the actual date of loan issuance.

-- Said the GOI was about to release \$75 million in attached revenues to the PA.

-- Noted that PA Finance Minister Fayyad was key to the revenue transfer arrangement and said Israel hoped he would continue in his current capacity;

-- Stressed that, come what may in the political sphere, the GOI would maintain the 2005 budget framework agreed upon by the cabinet in 2004 (i.e. 3% budget deficit and 1% real expenditure growth, aside from disengagement). He emphasized that the GOI was "paying" for the new coalition (i.e. funding Labor and UTJ budgetary priorities) out of a 3% across-the-board cut in ministerial budgets (primarily in the area of procurement);

-- Expressed hope that the Knesset would approve his financial reform package in mid-February.

End Summary.

Bachar to Coordinate All Requests for U.S. Assistance

2. (C) Bachar outlined a new GOI effort to bring improved coordination to its requests for U.S. assistance. He noted the wide variety of Israeli officials who went to the U.S. and asked the U.S. to provide funding for their own pet projects. In many cases, these requests were made with no intragovernmental coordination, leading to a lack of policy coherence. Bachar had successfully lobbied the Prime Minister's Office (PMO) to implement a new way of doing business. From now on, all assistance requests would be coordinated by a new committee he would chair, which would include representatives from appropriate ministries, including PMO DG Ilan Cohen. Bachar said that future assistance requests would be smaller in number, and transmitted through a very limited number of channels: at the political level by the PMO's advisor Dubi Weissglas, and at the working level by himself. The PM and Weissglas would decide on a case-by-case basis who would raise such requests in Washington, but Bachar promised that any such requests would be closely coordinated.

"Too Early" for Disengagement Request,
PA Quality of Life Request "Not Official"

3. (C) Bachar noted that it was "too early" to submit a request for disengagement assistance, saying the GOI had to first "prove its seriousness" on implementation. As for Washington discussions held by Ambassador Ayalon and Economics Counselor Boaz Raday on U.S. assistance for the GOI's Palestinian quality of life initiative (reftel), Bachar termed these exploratory only and stressed they should not be viewed by Washington as official assistance requests.

No Need for JEDG Before April

4. (C) Bachar said the GOI agreed to the U.S. proposal to hold a Joint Economic Development Group (JEDG) in April or

May. He asked whether the USG agreed to Israeli utilization of rolled-over loan guarantees in a late-March or April bond issuance. EconCouns noted that, according to the Loan Guarantee Agreement (LGA), the USG would need to make a "determination" that the GOI continued to meet the economic conditionalities laid down by the 2003 and 2004 JEDG consultations before the GOI could utilize rolled-over guarantees. Although the GOI was now meeting these conditionalities, it was premature to issue a blanket determination so far in advance of an April issuance. The USG would prefer to make such a determination closer to an actual issuance in a forum less formal than a JEDG. Bachar said this was acceptable, and asked for a letter outlining this understanding.

GOI Concern over Fate of Salaam Fayyad

15. (C) Bachar stressed Israeli support for Salaam Fayyad's efforts to reform PA finances. The GOI was now preparing to transfer an additional USD 75 million in court attachments to the PA. Bachar said he hoped Fayyad would continue in his current capacity, and said he was concerned a change in the PA Finance portfolio could impact on the current revenue transfer arrangement, which in large part hinged on the GOI's trust in Fayyad.

Politics be Damned: The Budgetary Framework "Can't be Broken"

16. (C) In response to the Economic Counselor's question how much the new coalition government had cost in budgetary terms, Bachar stressed that any such costs would be borne within the budgetary framework approved by the cabinet in 2004. The recent agreement with the Histadrut had left GOI finances for 2005 in "good shape" and with new flexibility. Aside from disengagement, Bachar said, the 2005 budget deficit would not exceed 3% and real expenditure growth would not exceed 1%. Disengagement included, the deficit would not exceed 3.4%. "If the government wants to spend more in a certain area, cuts will have to be made elsewhere." PM Sharon had made this point crystal clear in a January 16 cabinet meeting, which had agreed to an across-the-board 3% cut in ministerial budgets (primarily in the area of procurement) to make up for new expenditures on Labor and UTJ priorities. Although Bachar did not respond directly to a follow-up question relating to how much it would cost to bring Shas into the government, he again noted that the budget framework would not be broken. Bachar expected the Knesset to pass the 2005 budget sometime in mid- to late-February.

Bachar Beams over the Fischer Coup and Exudes Hope over His Own Reforms

17. (C) Bachar ended the meeting by exulting over the recent appointment of Stanley Fischer as the new Bank of Israel (BOI) governor. "This was a real coup, wasn't it?" He said that "only someone like Netanyahu could have convinced Fischer to come here." Bachar hoped the appointment would help bolster cooperation between the MoFinance and the BOI. Bachar specifically noted that Fischer supported his financial sector reform program, which Bachar said he expected the Knesset to pass sometime in mid-February.

Visit Embassy Tel Aviv's Classified Website:
<http://www.state.sgov.gov/p/nea/telaviv>

You can also access this site through the State Department's Classified SIPRNET website.

KURTZER